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October 10, 1996

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Federal Communications Commission  
Office of Secretary

EX PARTE

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service  
CC Docket No. 96-45

Dear Mr. Caton:

In accordance with the Commission's rules regarding ex parte presentations, please be advised that yesterday, Paul Cooper, Bill Blase, and the undersigned, representing Southwestern Bell Telephone Company (SWBT), met with Dan Gonzalez and Paul Garnett of Commissioner Chong's staff. The purpose of the meeting was to discuss SWBT's stated position in the above-referenced rule making docket.

Written materials, which were used during the presentation, are attached to this letter for inclusion into the official record in this docket. Pursuant to Section 1.1206(a)(1) of the Commission's rules, 47 C.F.R. § 1.1206(a)(1), two copies of this letter and the supporting materials are provided for your use.

Should you have any questions concerning the foregoing, do not hesitate to contact me.

Sincerely,

*Todd F. Silbergeld*

Attachment

cc: Mr. Gonzalez  
Mr. Garnett

No. of Copies rec'd  
List A B C D E

022

**MAINTENANCE AND PROTECTION OF QUALITY**  
**UNIVERSAL SERVICE**

**SWBT**

1. Local Exchange Network Facilities (loop, local switch, exchange trunks) are the basis for interconnecting customers and provisioning universally available services.
2. The Actual (Incurred) Costs of local exchange network facilities, which now provide quality universally available services, and which have been approved by both Federal and State regulators, must be used to define appropriate and sufficient support.
3. Universal Service areas should be defined as current exchanges or wire centers.
  - Basis for defining current supported local rate.
4. Actual local exchange study area costs should be distributed to Universal Service areas:
  - a) Based on an analysis of actual costs by wire center or exchange, or
  - b) If actual costs data by wire center is not available, using BCM2 wire center relationships.
5. Level of support should be based on difference between Universal Service area actual costs and:
  - a) Average wire center local exchange revenues (Attachment 1)<sup>1</sup>, or
  - b) 1% of statewide average median income (Attachment 2).
6. Support should be jurisdictionalized based on current recovery of local exchange network costs (Attachment 3).
  - Minimizes support funding flows between states and allows states to manage their support requirements.

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<sup>1</sup> The average local revenues include vertical service revenues. This revenue further supports reasonably priced residential local rates. This vertical service revenue support has also been placed at substantial risk by the FCC's Interconnection Order. Because SWBT included this revenue as part of the average local exchange revenue benchmark, the vertical service residential support is not included in the support which is calculated. If this implicit vertical service revenue support had instead been excluded from the local service revenue benchmark, SWBT expects that the overall nationwide Universal Service support requirement would increase by \$8B to \$10B.

- Interstate Fund - Interstate loop and switching recovery by LEC.
  - Intrastate Funds - Remainder of support not assigned to the federal fund.
7. Support should be funded (jurisdictionally) on a competitively neutral basis, based on a surcharge on retail revenues (interstate or intrastate) (Attachment 3).
8. Per line support should be available on a non-discriminatory basis to all eligible (per the Act) and qualified carriers. Qualified carriers receive support:
- a) Only if the incumbent receives support in the Universal Service area.
  - b) Only if it meets State imposed quality of service criteria.
  - c) Only for the facilities it has placed to serve customers (not for resale or purchase of unbundled elements).
9. Adoption of TELRIC pricing for interconnection and elimination of TIC and CCL makes Universal Service reform imperative.
- The TELRIC costing methodology unseparated unblundled loop adopted in the Interconnection Order effectively causes a jurisdictional cost recovery shift to intrastate.
  - The above plan deals with the interstate and intrastate CCL loop cost recovery support (cost recovery shift to State) put at risk by the Interconnection Order.
  - The RIC or TIC represents legitimate costs which are (1) the 80% of tandem costs that were arbitrarily excluded from transport rates by the FCC and; (2) lower volume, higher cost transport rates to largely rural areas and to non-urban independent telephone companies whose costs were not recovered by the arbitrary high volume transport rates established by the FCC. As SWBT demonstrated in its CC Docket 91-213 filing, the RIC supports allowed maintenance of reasonably priced access to toll in these lower volume, largely non-urban areas. Consequently, in order to preserve reasonably priced largely non-urban access to toll, and as a result of the FCC Interconnection Order, if the RIC is not recovered in access reform then SWBT recommends that 100% of the RIC (interstate and intrastate) be assigned to the respective federal and state Universal Service funds.

10. Proxies such as TSLRIC, TELRIC and BCM2 inappropriately define local exchange costs.

- Use of these proxies provide insufficient support to maintain a universally available network (Attachment 4).
- Certain of the proxies (i.e.; TSLRIC purposefully and uneconomically understate costs) (Attachment 5).

**Total Industry Universal Service Support Requirement**  
**Actual Local Exchange Costs Less Actual Local Exchange Revenues and Resulting Support By Wire Center**  
**Estimates Based on 1993 Costs and Revenues from Publicly Available Data**

State Name	Annual Amounts				Per Line/Per Month Amounts		
	Actual Lines	Actual Local Revenue	Actual Local Cost	Support Required*	Actual Local Revenue (F=C/B/12)	Actual Local Cost (G=D/B/12)	Support Required* (H=E/B/12)
(A)	(B)	(C)	(D)	(E)	(F=C/B/12)	(G=D/B/12)	(H=E/B/12)
Alabama	2,072,664	866,853,748	1,077,721,181	234,374,204	34.85	43.33	9.42
Alaska	334,059	120,062,563	230,027,654	109,970,461	29.95	57.38	27.43
Arizona	2,164,479	700,932,865	975,637,692	277,503,157	28.99	37.56	10.68
Arkansas	1,123,227	396,646,333	598,858,251	225,816,636	29.43	44.43	16.75
California	18,872,440	5,338,363,228	8,048,814,054	2,720,799,433	23.57	35.54	12.01
Colorado	2,191,528	795,399,525	1,080,344,033	292,505,111	30.25	41.08	11.12
Connecticut	1,856,765	645,428,488	1,000,889,157	355,491,945	28.97	44.92	15.95
Delaware	446,623	128,433,400	165,137,670	38,258,676	23.96	30.81	7.14
District of Columbia	838,869	314,317,223	348,685,582	35,304,526	31.22	34.64	3.51
Florida	8,580,752	2,840,348,799	4,510,266,707	1,670,891,976	27.58	43.80	16.23
Georgia	3,791,933	1,514,328,274	2,125,785,837	629,659,318	33.28	46.72	13.84
Hawaii	664,306	238,660,810	362,775,174	124,464,308	29.94	45.51	15.61
Idaho	549,518	157,391,126	260,031,714	102,640,588	23.87	39.43	15.57
Illinois	6,979,818	2,459,994,751	2,609,596,493	288,165,484	29.37	31.16	3.44
Indiana	2,972,600	942,926,287	1,276,168,550	337,885,002	28.43	35.78	9.47
Iowa	1,419,123	406,917,369	547,288,005	148,449,120	23.84	32.14	8.60
Kansas	1,271,413	395,821,472	606,771,319	222,835,461	25.94	39.77	14.61
Kentucky	1,754,734	657,927,897	901,009,450	280,118,189	31.25	42.79	12.35
Louisiana	2,101,558	908,309,658	1,119,314,386	243,455,976	36.02	44.38	9.65
Maine	699,372	187,677,042	353,698,726	167,750,201	22.36	42.14	19.99
Maryland	3,005,368	1,122,669,395	1,321,719,051	227,649,142	31.13	36.65	6.31
Massachusetts	3,807,972	1,395,975,145	1,632,197,849	287,682,216	30.55	35.72	6.30
Michigan	5,321,861	1,518,815,723	2,250,978,622	738,757,952	23.78	35.25	11.57
Minnesota	2,526,505	826,335,933	1,065,749,807	262,010,195	27.26	35.15	8.64
Mississippi	1,136,798	479,166,220	673,990,197	200,653,582	35.13	49.41	14.71
Missouri	2,692,604	953,075,649	1,357,802,676	499,705,354	29.50	42.02	15.47
Montana	436,752	133,115,731	219,252,984	86,137,254	25.40	41.83	16.44
Nebraska	889,112	311,666,332	447,272,834	149,610,069	29.21	41.92	14.02
Nevada	862,067	233,451,712	317,733,173	89,618,539	22.57	30.71	8.66
New Hampshire	665,406	207,232,487	326,514,557	119,282,070	25.95	40.89	14.94
New Jersey	5,279,728	1,376,113,096	2,039,699,224	663,586,127	21.72	32.19	10.47
New Mexico	792,240	280,456,864	416,798,652	141,124,455	29.50	43.84	14.84
New York	10,483,945	5,270,228,705	5,814,024,150	1,008,489,629	41.89	46.21	8.02
North Carolina	3,765,655	1,253,682,979	1,844,102,030	592,611,287	27.74	40.81	13.11
North Dakota	371,897	106,392,816	169,733,479	63,576,071	23.85	38.05	14.25
Ohio	5,797,159	2,055,741,543	2,616,723,352	596,048,856	29.55	37.62	8.57
Oklahoma	1,618,224	553,977,100	807,875,733	306,837,035	28.53	41.60	15.90
Oregon	1,654,772	523,144,957	760,150,039	240,710,698	26.35	38.28	12.12
Pennsylvania	6,733,990	1,983,970,486	2,773,617,227	806,171,010	24.55	34.32	9.98
Rhode Island	565,730	192,571,380	223,929,757	35,670,200	28.37	32.99	5.25
South Carolina	1,785,755	703,736,101	986,410,088	287,564,532	32.84	48.03	13.42
South Dakota	363,087	106,132,673	166,999,481	63,894,620	24.36	38.33	14.66
Tennessee	2,763,203	975,274,943	1,365,010,998	401,568,014	29.41	41.17	12.11
Texas	9,359,007	3,177,416,439	4,830,532,335	1,779,494,486	28.29	43.01	15.84
Utah	883,407	249,635,740	364,065,803	114,516,899	23.55	34.34	10.80
Vermont	305,499	109,832,229	172,895,663	65,999,566	29.96	47.16	18.00
Virginia	3,673,652	1,292,128,978	1,693,632,013	428,318,816	29.31	38.42	9.72
Washington	2,958,810	911,951,944	1,386,574,046	479,328,369	25.68	39.05	13.50
West Virginia	849,875	369,004,506	502,396,127	151,531,578	36.18	49.26	14.86
Wisconsin	2,800,330	815,823,429	1,138,458,687	330,957,566	24.28	33.88	9.85
Wyoming	253,725	76,140,411	140,201,968	64,061,557	25.01	46.05	21.04
Total	145,089,715	49,580,600,508	68,025,864,237	19,769,507,515	28.48	39.07	11.35

\* Support is developed on a wire center specific basis, and may not reflect differences between study area costs and revenues.

**Total Industry Universal Service Support Requirement**  
**Actual Cost and Revenues Assuming Local Rates Equal 1% State Median Income By Wire Center**  
**Estimates Based on 1993 Costs and Assumed Revenues from Publicly Available Data**

State Name	Annual Amounts				Per Line/Per Month Amounts		
	Actual Lines	Estimated Local Revenue	Actual Local Cost	Support Required*	Estimated Local Revenue	Actual Local Cost	Support Required*
(A)	(B)	(C)	(D)	(E)	(F=C/B/12)	(G=D/B/12)	(H=E/B/12)
Alabama	2,072,664	563,598,795	1,077,721,181	514,122,388	22.66	43.33	20.67
Alaska	334,059	151,569,130	230,027,654	80,755,985	37.81	57.38	20.15
Arizona	2,164,479	677,395,348	975,637,692	299,580,135	26.08	37.56	11.53
Arkansas	1,123,227	287,086,752	598,858,251	311,896,124	21.30	44.43	23.14
California	18,872,440	6,667,255,603	8,048,814,054	1,576,306,609	29.44	35.54	6.96
Colorado	2,191,528	829,186,534	1,080,344,033	262,231,663	31.53	41.08	9.97
Connecticut	1,856,765	763,130,415	1,000,889,157	247,707,968	34.25	44.92	11.12
Delaware	448,623	160,194,738	165,137,670	17,488,402	29.89	30.81	3.26
District of Columbia	838,869	252,667,345	348,685,582	96,018,237	25.10	34.64	9.54
Florida	8,580,752	2,513,473,876	4,510,266,707	1,986,792,831	24.41	43.80	19.39
Georgia	3,791,933	1,193,093,799	2,125,785,837	932,802,208	26.22	48.72	20.50
Hawaii	664,306	280,682,571	362,775,174	95,736,113	35.21	45.51	12.01
Idaho	549,518	173,164,112	260,031,714	89,647,513	26.26	39.43	13.59
Illinois	6,979,816	2,448,240,962	2,609,596,493	300,128,126	29.23	31.16	3.58
Indiana	2,972,600	828,285,264	1,276,168,550	448,233,092	23.22	35.78	12.57
Iowa	1,419,123	469,502,653	547,288,005	103,352,180	27.57	32.14	6.07
Kansas	1,271,413	329,694,283	606,771,319	277,959,980	21.61	39.77	18.22
Kentucky	1,754,734	466,618,865	901,009,450	435,179,451	22.16	42.79	20.67
Louisiana	2,101,558	539,680,094	1,119,314,386	579,634,292	21.40	44.38	22.96
Maine	699,372	211,993,641	353,696,726	144,537,178	25.26	42.14	17.22
Maryland	3,005,368	1,178,224,471	1,321,719,051	189,907,748	32.67	36.65	5.27
Massachusetts	3,807,972	1,542,228,830	1,632,197,849	199,996,014	33.75	35.72	4.38
Michigan	5,321,861	1,877,552,561	2,250,978,622	411,931,166	29.40	35.25	6.46
Minnesota	2,526,505	850,118,402	1,066,749,807	238,128,765	28.04	35.15	7.85
Mississippi	1,136,796	288,792,164	673,990,197	385,198,033	21.17	49.41	28.24
Missouri	2,692,604	717,438,974	1,357,802,676	643,306,837	22.20	42.02	19.91
Montana	436,752	120,700,783	219,252,984	98,559,398	23.03	41.83	18.81
Nebraska	889,112	282,737,616	447,272,834	175,282,192	26.50	41.92	16.43
Nevada	862,067	309,206,192	317,733,173	48,304,167	29.89	30.71	4.67
New Hampshire	665,406	234,515,691	326,514,557	93,393,727	29.37	40.89	11.70
New Jersey	5,279,728	2,232,057,809	2,039,699,224	78,056,814	35.23	32.19	1.23
New Mexico	792,240	213,144,250	416,798,662	203,654,402	22.42	43.84	21.42
New York	10,483,945	3,343,959,097	5,814,024,150	2,470,749,692	26.58	46.21	19.64
North Carolina	3,765,655	1,134,215,286	1,844,102,030	713,384,912	25.10	40.81	15.79
North Dakota	371,697	105,130,779	169,733,479	64,845,791	23.57	38.05	14.54
Ohio	5,797,159	1,846,974,857	2,616,723,352	778,942,423	26.55	37.62	11.20
Oklahoma	1,618,224	417,692,830	807,875,733	393,020,342	21.51	41.60	20.24
Oregon	1,654,772	520,458,889	760,150,039	244,628,491	28.21	36.28	12.32
Pennsylvania	6,733,990	2,159,186,554	2,773,617,227	650,202,244	26.72	34.32	8.06
Rhode Island	566,730	180,648,904	223,929,757	44,525,670	26.61	32.99	6.56
South Carolina	1,785,755	532,940,722	988,410,088	453,769,330	24.87	46.03	21.18
South Dakota	363,087	108,359,684	166,999,461	60,937,369	24.87	38.33	13.99
Tennessee	2,763,203	791,491,726	1,365,010,998	573,519,271	23.87	41.17	17.30
Texas	9,359,007	2,499,852,822	4,830,532,335	2,338,596,122	22.26	43.01	20.82
Utah	883,407	315,482,308	364,065,803	60,066,728	29.76	34.34	5.67
Vermont	306,499	109,393,082	172,895,663	68,165,775	29.84	47.16	18.06
Virginia	3,673,652	1,382,909,559	1,893,632,013	353,185,624	31.37	38.42	8.01
Washington	2,958,810	992,029,817	1,386,574,046	406,740,157	27.94	39.05	11.46
West Virginia	849,875	200,298,540	502,396,127	302,097,587	19.64	49.26	29.82
Wisconsin	2,800,330	990,980,780	1,138,458,687	180,442,762	29.49	33.88	5.37
Wyoming	253,725	84,094,614	140,201,968	56,107,354	27.62	46.05	16.43
Total	145,089,715	47,369,343,375	68,025,864,237	21,787,759,402	27.21	39.07	12.51

\* Support is developed on a wire center specific basis, and may not reflect differences between study area costs and revenues.

# Estimated Jurisdictional Support

State	Total Support	Interstate Support	State Support	Intrastate Retail Revenues*	Intrastate Surcharge
Alabama	234,374,204	121,930,701	112,443,503	1,157,673,574	0.0971
Alaska	109,970,461	91,700,016	18,270,445	207,735,672	0.0880
Arizona	277,503,157	78,740,488	198,762,669	954,377,921	0.2083
Arkansas	225,816,636	114,743,378	111,073,258	593,718,657	0.1871
California	2,720,799,433	404,281,253	2,316,518,180	9,998,253,180	0.2317
Colorado	292,505,111	53,626,739	238,878,372	1,031,641,840	0.2316
Connecticut	355,491,945	39,916,088	315,575,857	919,061,952	0.3434
Delaware	38,258,676	6,915,000	31,343,676	124,158,178	0.2524
District of Columbia	35,304,526	9,514,000	25,790,526	356,598,444	0.0723
Florida	1,670,891,976	340,819,035	1,330,072,942	4,308,389,012	0.3087
Georgia	629,659,318	195,630,430	434,028,888	1,948,221,307	0.2228
Hawaii	124,464,308	18,700,000	105,764,308	270,937,143	0.3904
Idaho	102,640,588	55,982,955	46,657,633	283,360,866	0.1647
Illinois	288,165,484	120,287,568	167,877,916	2,775,034,067	0.0605
Indiana	337,885,002	69,239,629	268,645,373	1,561,889,944	0.1720
Iowa	146,449,120	52,337,414	94,111,706	852,298,620	0.1104
Kansas	222,835,461	71,239,926	151,595,535	802,577,867	0.1889
Kentucky	260,118,189	84,837,312	175,280,878	883,055,775	0.1985
Louisiana	243,455,976	131,213,892	112,242,084	1,151,905,159	0.0974
Maine	167,750,201	36,951,904	130,798,296	355,464,485	0.3680
Maryland	227,649,142	50,452,438	177,196,704	1,314,795,582	0.1348
Massachusetts	287,682,216	75,521,455	212,160,762	1,745,049,142	0.1216
Michigan	738,757,952	100,180,174	638,577,778	2,685,933,266	0.2377
Minnesota	262,010,195	69,219,913	192,790,283	1,315,914,385	0.1465
Mississippi	200,653,582	97,337,604	103,315,978	631,693,253	0.1636
Missouri	499,705,354	201,061,742	298,643,611	1,614,285,920	0.1850
Montana	86,137,254	39,377,589	46,759,664	264,204,043	0.1770
Nebraska	149,610,069	28,062,353	121,547,715	504,203,117	0.2411
Nevada	89,618,539	22,457,135	67,161,403	254,938,777	0.2634
New Hampshire	119,282,070	35,359,094	83,922,976	306,820,919	0.2735
New Jersey	663,586,127	109,944,952	553,641,176	2,135,572,762	0.2592
New Mexico	141,124,455	67,032,659	74,091,796	414,703,652	0.1787
New York	1,008,489,629	280,942,589	727,547,040	6,321,314,193	0.1151
North Carolina	592,611,287	157,175,509	435,435,778	2,054,839,166	0.2119
North Dakota	63,576,071	20,926,440	42,649,631	200,158,218	0.2131
Ohio	596,048,856	96,663,136	499,385,720	2,947,235,551	0.1694
Oklahoma	308,837,035	101,329,941	207,507,095	784,949,960	0.2644
Oregon	240,710,698	68,374,343	172,336,355	901,412,223	0.1912
Pennsylvania	806,171,010	132,786,168	673,384,842	2,978,918,327	0.2261
Rhode Island	35,670,200	11,214,000	24,456,200	216,536,713	0.1129
South Carolina	287,564,532	122,629,882	164,934,651	1,010,337,329	0.1632
South Dakota	63,894,620	18,745,429	45,149,192	184,759,896	0.2444
Tennessee	401,568,014	99,963,956	301,604,058	1,251,733,510	0.2409
Texas	1,779,494,486	413,047,555	1,366,446,931	5,604,719,796	0.2438
Utah	114,516,899	22,973,186	91,543,713	361,458,607	0.2533
Vermont	65,999,566	28,225,517	37,774,049	189,628,232	0.1992
Virginia	428,318,816	83,369,704	344,949,112	1,797,361,608	0.1919
Washington	479,328,369	102,150,580	377,177,788	1,700,617,065	0.2218
West Virginia	151,531,578	94,202,700	57,328,878	483,835,115	0.1185
Wisconsin	330,957,566	78,173,311	252,784,255	1,428,353,431	0.1770
Wyoming	64,061,557	15,123,064	48,938,493	129,963,433	0.3766
Total	19,769,507,515	4,942,631,846	14,826,875,669	74,272,600,854	0.1996
Interstate Revenues		57,357,848.089			
Interstate Surcharge Per Dollar of Revenue		0.0862			

\* Wireless revenues not available and not included.

**PROXIES ARE INAPPROPRIATE FOR USE IN DETERMINING TOTAL LOCAL EXCHANGE COSTS  
AND PRODUCE INSUFFICIENT SUPPORT TO MAINTAIN UNIVERSAL SERVICE**

**LOCAL EXCHANGE COSTS**

State	ACTUAL Total (a)	Total (b)	BCM 2 Difference (c=a-b)	% Diff (d=c/a)	Total (e)	FCC TELRIC * Difference (f=e-a)	% Diff (g=f/a)	Total (h)	Hatfield TSLRIC * Difference (i=h-a)	% Diff (j=i/a)
Alabama	1,077,721,181	1,037,946,248	(39,774,938)	-3.69%	675,273,931	(402,447,250)	-37.34%	556,634,644	(521,086,537)	-48.35%
Alaska **	230,027,554	173,790,374	(56,237,280)	-24.45%	—	—	—	—	—	—
Arizona	775,637,592	688,415,677	(108,222,015)	-10.89%	590,902,787	(384,734,925)	-38.43%	534,539,734	(441,087,958)	-45.21%
Arkansas	598,658,231	686,035,538	87,377,307	14.59%	418,918,641	(179,939,810)	-30.03%	298,227,901	(298,630,681)	-50.03%
California	3,048,814,054	5,941,332,878	(2,892,518,824)	-94.85%	4,735,854,680	(3,292,959,174)	-40.91%	3,415,158,742	(4,633,657,311)	-57.57%
Colorado	1,080,344,033	888,292,082	(192,051,951)	-17.78%	654,039,616	(426,304,416)	-38.46%	611,436,312	(468,907,721)	-43.40%
Connecticut	1,000,688,157	753,143,487	(247,544,670)	-24.73%	515,263,693	(485,525,463)	-48.51%	400,188,983	(600,719,184)	-60.02%
Delaware	185,137,970	188,553,741	3,415,771	1.84%	124,018,273	(41,119,398)	-24.90%	22,238,582	(72,901,088)	-44.15%
District of Columbia	348,685,582	188,823,354	(159,862,228)	-45.85%	208,475,728	(140,209,858)	-40.21%	132,977,515	(215,708,067)	-61.86%
Florida	4,510,288,707	3,189,750,015	(1,320,538,692)	-29.27%	2,428,008,586	(2,082,257,121)	-48.17%	1,681,920,047	(2,848,348,660)	-63.15%
Georgia	2,125,785,837	1,637,788,182	(487,997,655)	-22.96%	1,182,828,064	(943,157,773)	-44.37%	355,460,085	(1,770,325,752)	-58.76%
Hawaii **	382,773,174	233,685,291	(149,087,883)	-38.95%	200,846,984	(182,126,190)	-44.89%	—	—	—
Idaho	280,031,714	284,679,178	4,647,464	1.66%	198,222,133	(81,809,581)	-23.77%	148,620,586	(110,211,127)	-42.28%
Illinois	2,908,598,483	2,534,907,043	(373,691,440)	-12.85%	1,928,104,924	(880,493,559)	-28.11%	1,221,888,336	(1,287,398,156)	-48.35%
Indiana	1,278,188,550	1,330,433,757	52,245,207	4.09%	827,215,128	(450,973,422)	-38.18%	617,825,184	(660,363,366)	-51.53%
Iowa	547,288,006	741,788,838	194,500,832	35.54%	440,041,680	(107,246,326)	-19.80%	328,205,393	(208,082,612)	-38.20%
Kansas	906,771,319	583,083,133	(323,688,186)	-35.70%	483,884,406	(122,876,913)	-25.20%	320,701,190	(286,070,128)	-47.15%
Kentucky	901,008,480	983,283,835	82,275,355	9.13%	580,111,093	(320,897,387)	-37.84%	486,335,457	(414,693,983)	-48.35%
Louisiana	1,119,314,386	988,118,981	(131,195,405)	-11.72%	677,878,548	(441,435,838)	-38.44%	488,077,994	(630,236,392)	-58.41%
Maine	353,888,728	384,014,838	30,126,110	8.51%	229,940,546	(123,948,182)	-32.16%	190,088,310	(163,608,418)	-48.28%
Maryland	1,221,719,031	1,017,207,173	(204,511,858)	-16.73%	838,888,318	(482,830,713)	-38.53%	900,472,528	(721,248,525)	-54.57%
Massachusetts	1,632,197,849	1,232,035,888	(400,161,961)	-24.52%	901,575,350	(730,622,599)	-44.76%	733,521,582	(898,676,257)	-53.83%
Michigan	2,250,978,622	2,292,878,029	41,899,407	1.86%	1,807,414,896	(443,563,725)	-28.59%	1,108,880,084	(1,142,328,538)	-60.73%
Minnesota	1,088,748,807	1,119,468,238	30,719,431	2.83%	748,198,283	(340,550,524)	-30.71%	588,463,625	(497,286,182)	-48.66%
Mississippi	573,990,197	682,178,298	108,188,101	18.85%	434,757,027	(239,233,170)	-38.50%	388,004,831	(304,986,588)	-48.25%
Missouri	1,257,302,978	1,284,484,028	27,181,050	2.16%	911,823,419	(445,479,559)	-38.85%	905,512,786	(732,288,688)	-58.40%
Montana	219,292,984	237,210,688	17,917,704	8.17%	183,888,122	(35,404,862)	-19.14%	129,201,597	(80,081,387)	-38.51%
Nebraska	447,272,834	480,800,835	33,528,001	7.49%	298,208,185	(149,064,649)	-33.53%	239,273,088	(147,997,735)	-33.08%
Nevada	317,733,173	327,042,058	9,308,885	2.93%	238,447,586	(89,285,587)	-27.07%	272,482,137	(48,251,039)	-14.24%
New Hampshire	228,514,587	319,847,713	91,333,126	40.00%	208,808,185	(119,706,372)	-32.88%	172,233,688	(154,288,888)	-47.23%
New Jersey	2,039,888,224	1,831,829,618	(208,058,606)	-10.20%	1,417,290,184	(622,598,039)	-30.51%	987,487,338	(1,072,241,886)	-52.57%
New Mexico	418,798,652	393,938,708	(24,859,944)	-5.93%	271,518,483	(147,280,169)	-34.28%	222,388,923	(194,432,729)	-48.68%
New York	5,814,024,150	3,286,233,148	(2,527,791,001)	-43.48%	2,723,728,911	(3,090,295,239)	-53.15%	2,040,586,085	(3,773,438,065)	-64.90%
North Carolina	1,844,102,030	1,748,187,470	(95,914,560)	-5.20%	1,202,448,988	(641,653,042)	-34.79%	827,841,586	(1,016,260,435)	-58.11%
North Dakota	188,733,479	177,198,333	(11,535,146)	-6.12%	157,272,435	(31,461,044)	-19.98%	88,138,793	(81,598,687)	-48.07%
Ohio	2,918,723,252	2,508,888,308	(409,834,944)	-13.99%	1,782,974,222	(835,749,130)	-31.86%	1,173,578,888	(1,443,148,484)	-58.15%
Oklahoma	807,873,733	732,340,222	(75,533,511)	-9.35%	534,588,548	(273,275,185)	-38.83%	414,008,478	(383,888,236)	-48.75%
Oregon	780,150,039	708,883,486	(71,266,553)	-9.13%	503,183,070	(276,966,970)	-35.80%	383,443,786	(378,708,272)	-49.98%
Pennsylvania	2,773,617,227	2,586,827,408	(186,789,819)	-6.73%	1,793,934,936	(979,682,291)	-35.22%	1,340,802,729	(1,433,014,466)	-51.67%
Rhode Island	223,929,757	218,174,290	(5,755,468)	-2.57%	148,143,689	(79,786,068)	-35.18%	112,525,528	(111,304,229)	-49.70%
South Carolina	386,410,088	879,354,388	492,944,300	127.58%	577,341,748	(408,468,340)	-41.41%	437,581,405	(548,823,883)	-55.64%
South Dakota	188,988,481	228,198,477	39,209,996	20.79%	153,488,880	(35,500,601)	-23.19%	91,182,931	(73,808,551)	-45.39%
Tennessee	1,285,010,998	1,271,017,385	(14,003,613)	-1.09%	905,588,728	(479,422,270)	-38.88%	570,463,467	(684,547,531)	-50.88%
Texas	4,830,532,335	3,537,180,328	(1,293,352,007)	-26.77%	2,881,502,253	(1,949,030,082)	-40.97%	1,882,283,488	(2,948,248,848)	-61.03%
Utah	284,088,803	351,784,202	67,695,399	23.83%	286,234,118	(98,854,685)	-34.54%	228,328,873	(137,758,930)	-37.83%
Vermont	172,986,883	183,401,880	10,414,997	6.02%	110,088,820	(62,898,063)	-38.23%	88,743,286	(84,182,277)	-48.09%
Virginia	1,883,832,013	1,541,321,887	(342,510,126)	-18.19%	1,039,334,291	(844,507,722)	-37.45%	732,070,037	(941,561,978)	-56.58%
Washington	1,286,574,048	1,155,683,688	(130,890,360)	-10.18%	826,218,104	(580,355,944)	-40.41%	913,883,888	(772,980,147)	-58.73%
West Virginia	502,398,127	534,888,478	32,490,351	6.47%	297,288,273	(205,109,854)	-40.83%	282,509,380	(229,888,737)	-47.73%
Wisconsin	1,128,458,687	1,247,277,077	118,818,390	10.53%	368,328,328	(270,130,359)	-33.73%	527,248,132	(611,212,555)	-53.68%
Wyoming	140,201,968	121,819,851	(18,382,117)	-13.12%	108,594,947	(31,607,021)	-23.97%	92,132,622	(48,069,346)	-34.23%
Total	58,025,364,237	57,717,587,512	(306,776,725)	-0.53%	42,064,120,646	(23,731,715,937)	-37.33%	30,587,448,182	(28,865,913,229)	-54.19%

\* Estimated State Access Lines times TELRIC or Hatfield average cost per line.

\*\* No TELRIC and/or Hatfield proxy numbers are available for these states.

- Local Exchange Network facilities cannot be built based on the cost results of the hypothetical FCC TELRIC, Hatfield, and BCM 2 models in many regions of the country.
- If these confiscatory models are used as the cost basis for Universal Service, legitimate costs will be excluded, Universal Service funds will not have sufficient support, and quality, universally-available service at just and reasonable rates will not be possible.



**EXAMPLES OF HATFIELD MODEL  
VERSION 2.2, RELEASE 2  
UNDERSTATEMENT OF COSTS**

**1. STRUCTURE FACTORS ASSIGN ONLY 33% TO TELEPHONE**

The Hatfield model inappropriately includes only one-third of costs associated with poles, conduit and trenching for buried cable. This calculation takes place in the Expense Module on the "Distribution" and "Feeder" worksheets. The "Structure fraction assigned to telephone" factors are found in cells F59 - H60 on the "Inputs" worksheet. They are shown separately for distribution and feeder.

Changing these factors from .33 to 1 increases the average loop cost per month as shown on below:

	<u>Per Loop</u>		<u>Total Understated Costs</u>
	<u>From</u>	<u>To</u>	
Arkansas	\$16.12	\$19.98	\$36M
Kansas	not yet run	-	-
Missouri	\$13.36	\$17.30	\$97M
Oklahoma	\$15.70	\$20.10	\$70M
Texas	\$11.87	\$15.86	\$349M

**2. HATFIELD DEVELOPS FACTORS ON TOTAL INVESTMENT AND RELATED EXPENSES, BUT UNDERSTATES EXPENSES BY INAPPROPRIATELY APPLYING THE FACTORS TO ONLY A PORTION OF THE HATFIELD CALCULATED INVESTMENT.**

Hatfield computes a maintenance factor from ARMIS data for cable and wire based on total maintenance expense and total investment by account; i.e., buried cable, underground cable, etc. Hatfield also develops factors in the "Inputs" worksheet of the Expense Module to determine the "Installation Factor", which is the percent of material cost to installed cost. When the "Network Expenses" are calculated on the individual worksheets ("Distribution", "Feeder") the total investment is first multiplied by the "Installation Factor" to develop material only costs. To develop maintenance expense, the material only costs are multiplied by the maintenance factor. This substantially understates the maintenance expenses. The proper expense development would be to apply the maintenance factors to the total investment, not just the material portion of that investment. In the case of buried cable, the expense is further understated by the .33 structure factor.

3. The model excludes investments related to motor vehicles and work equipment, and investments associated with plant under construction, and materials and supplies.
4. The model only identifies land and building costs for switching-related facilities. The model excludes necessary land and building costs (for central office circuit facilities, etc.).
5. The Hatfield model relies on the Benchmark Cost Model (BCM) for various elements including fill or capacity utilization. The fill factors are not realistic and can and have been utilized to understate investment in the Hatfield model. Released 2.2 of the Hatfield model used a lower fill factor than the BCM, resulting in higher investment. Finally, the model has not been updated with the latest BCM2 fill which would substantially raise investments.
6. The model uses a very conservative rate of return — well below the authorized federal return.
7. The model relies on incorrect input assumptions. For instance, the model assigns entire CBG costs to one LEC, when in fact, CBGs are often served by different LECs, and costs should be split among LECs.
8. The model excludes marketing expenses even though these expenses are required by the Federal Act to advertise the availability of Universal Services.
9. The model incorrectly assumes that support costs (e.g., computers, furniture, office equipment, etc.) will decline simply because Hatfield estimates facility investments which are lower than actual investments. The model lowers support cost based on a percentage equal to the Hatfield estimated investment divided actual investment.

## **COMPETITIVE BIDDING IS INAPPROPRIATE AND UNNECESSARY**

### **ENCOURAGES GAME PLAYING TO THE DETRIMENT OF UNIVERSAL SERVICE.**

- New entrant could select to serve a few cost customers in a high cost area with facilities and provide service to others with resale.
- New entrant could bid down support based on their lower facility costs.
- Support for incumbents who serve the higher cost customers would also be inappropriately reduced.

### **DOES NOT COMPLY WITH THE INTENT OF FEDERAL LEGISLATION AND IS HARMFUL TO THE STATE.**

- Discourages competition.
- Disincentivizes economic development.
- Discourages comparable urban and rural services and rates.
- Discourages bringing advanced services to rural areas.

### **WOULD CREATE INSTABILITY IN RURAL AND HIGH COST AREAS.**

- Continual changes in carrier of last resort obligations.
  - Who is customer to call?
- Insufficient support to maintain current obligations.

### **CREATES SUBSTANTIAL AND ADDITIONAL ADMINISTRATIVE BURDENS FOR COMPANIES AND REGULATORS.**